

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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OFFICE OF SECRETARY

In the Matter of)
Federal-State Joint Board on)
Universal Service)

CC Docket No. 96-45
DA 96-1094

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COMMENTS OF
MFS COMMUNICATIONS COMPANY, INC.

David N. Porter
Vice President, Government Affairs
MFS COMMUNICATIONS
COMPANY, INC.
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
(202) 424-7709

Andrew D. Lipman
Mark Sievers
SWIDLER & BERLIN, Chartered
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
(202) 424-7500
Fax (202) 424-7645

Attorneys for
MFS COMMUNICATIONS COMPANY, INC.

Dated: August 9, 1996

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**COMMENTS OF
MFS COMMUNICATIONS COMPANY, INC.**

MFS Communications Company, Inc. ("MFS"), by its undersigned counsel and pursuant to Section 1.415 of the Commission's rules, submits these comments in response to the Common Carrier Bureau's request for comments on the cost models submitted in this proceeding.

The engineering/economic models presented to the Commission and Joint Board represent a significant cooperative industry effort and are rich with technical detail and complexity. Pacific Telesis' model, for example, requires a machine with 16 Mb of memory, a 1 Gigabyte hard drive, SAS software (which costs in excess of \$2,000), and Excel. The Hatfield model uses LERG data (switches, tandems and STP locations), ARMIS data and various financial data in addition to the census block data used in the original Benchmark Cost Model ("BCM") which are so large they require a CD-ROM for electronic storage. The models, in spite of their complexity and differences, demonstrate that it is possible to build a national proxy cost model for local telephone services. Obviously, debating and resolving the details of such complex models and building a nationwide economic model of the ideal deployment of local

telephone service is not efficiently or effectively done in a public rulemaking. MFS recommends that the Joint Board and the Commission take three actions with regards to proxy cost models:

First, a proxy cost model should be used as the basis for universal service support rather than the embedded costs of the incumbent provider. In a competitive environment, the costs of the most efficient provider determine the market price and no firm is guaranteed recovery of its embedded costs. Given the national commitment to replace regulation with competition, the Commission and Joint Board should develop universal service mechanisms that emulate and encourage the development of competition rather than guarantee incumbents' recovery of their embedded costs. Using proxy costs for universal service support rather than the embedded costs of the incumbent provider is consistent with the operations of a competitive market. Using proxy costs rather than embedded costs is consistent with the pricing and costing rules the Commission recently adopted in its Interconnection proceeding.^{1/} In that order, the Commission explicitly excluded embedded costs, opportunity costs and subsidies from calculations to develop forward-looking incremental costs.^{2/} The same conceptual approach should be used to develop proxy costs for the purpose of providing universal service support.

^{1/} Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, at ¶¶ 618-862 (Aug. 8, 1996).

^{2/} *Id.*, Appendix B, B-30, § 51.505(d).

Second, a proxy cost model should reflect the costs of the most efficient provider using the most efficient technology (e.g., wireless, fiber, copper, etc.) to provide the core collection services included in universal service using a network that meets the minimum standards established by the Commission and Joint Board. Throughout its comments, MFS has recommended that the minimum network standards reflect the statutory standards set out in the Rural Electrification Loan Restructuring Act of 1993 for rural telephone carriers as a prerequisite for rural telephone loans,^{3/} specifically:

a telecommunications modernization plan must, at a minimum, meet the following objectives:

- (i) The plan must provide for the elimination of party service.
- (ii) The plan must provide for the availability of telecommunications services for improved business, educational, and medical services.
- (iii) The plan must encourage and improve computer networks and information highways for subscribers in rural areas.
- (iv) The plan must provide for --
 - (I) subscribers in rural areas to be able to receive through telephone lines --
 - (aa) conference calling;
 - (bb) video images; and,
 - (cc) data at a rate of at least 1,000,000 bits of information per second; and,
 - (II) the proper routing of information to subscribers.^{4/}

These standards unambiguously express the minimum standards that Congress defines as the prerequisite for federal rural telephone loans, and the state plans filed in conformance with this requirement reflect the network standards state commissions or borrowers believe are appropriate for rural carriers in their states. Clearly, if policy

^{3/} 107 Stat. 1356, codified in 7 U.S.C. § 935 (1994).

^{4/} 7 U.S.C. §935(d)(3)(B). [emphasis added]

makers set these minimum standards for rural telephone companies, they should apply to all local telecommunications providers. Said differently, it would not be sensible policy to hold rural telephone utilities to a higher standard than other carriers. Certainly, networks capable of one Megabit transmission speeds, could provide the type of broadband access that schools, libraries, health care providers and others seek, and should be a prerequisite to receiving universal service support.

While the networks modeled by the proxy cost models being considered by the Commission and Joint Board might meet the minimum network standards set by Congress for rural telephone carriers, none of the models explicitly include such capabilities in their basic assumptions. Any proxy cost model should develop costs for such minimum network capabilities set by the Commission and Joint Board. Indeed, the Commission declined to address access to advanced telecommunications services in its Interconnection Order, so it is entirely appropriate that the Commission and Joint Board address such access in the universal service proceeding.^{5/}

Third, the Commission and Joint Board should direct an industry forum to develop an appropriate proxy cost model. The statutory requirement that the Commission take final action within six months does not prohibit it from establishing an

^{5/} Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, at ¶¶ 1266-1268 (Aug. 8, 1996).

industry task force to develop an appropriate proxy cost model.^{9/} Said differently, the Joint Board and the Commission need not have a complete, comprehensive proxy cost model developed within the statutory time limits, but merely that they develop recommendations or rules implementing the universal service requirements of the Telecommunications Act. The Joint Board and Commission could comply with the statutory time frames by adopting MFS's proposal and recommending that universal service support be based on the difference between proxy costs for appropriately small geographic areas (e.g., census blocks) and 130% of the national average proxy costs. They could direct that an industry task force be established, much like industry forums implement the technical details of Commission orders, to develop, finalize and apply a consensus proxy cost model.

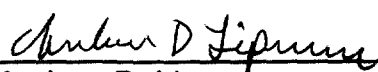
An industry forum to address the technical details of developing a proxy cost model could also be established to address on-going technical issues. For example, as technologies change, the proxy cost model should be updated. Similarly, as population densities change or as the composition of what should be included in the core functionalities on of universal service changes, the industry forum could update the model. Several bodies might sponsor such a forum, including the Alliance for Telecommunication Industry Solutions ("ATIS") or the Telephone Industry Association ("TIA").

^{9/} 47 U.S.C. § 254(2)

An industry forum would also provide an efficient mechanism to check the models for errors and omissions. Certainly, the model developers were conscientious, but in models as large and complex as required to model national loop costs of local telephone service, errors are bound to occur. A continuous industry forum charged with review and updates would provide a mechanism for cooperative review where a model's calculations and assumptions could be validated by numerous interested parties. Also, because of the complexity and size of the models, many smaller competitors do not have the resources to analyze and compare such models in public rulemakings. An industry forum would be an economical mechanism for smaller competitors to make their views known without the expense of purchasing machines and software powerful enough to run the proxy models.

Respectfully submitted,

David N. Porter
Vice President, Government Affairs
MFS COMMUNICATIONS
COMPANY, INC.
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
(202) 424-7709



Andrew D. Lipman
Mark Sievers
SWIDLER & BERLIN, Chartered
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
(202) 424-7500
Fax (202) 424-7645

Attorneys for
MFS COMMUNICATIONS COMPANY, INC.

August 9, 1996

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of August 1996, copies of the foregoing in
COMMENTS OF MFS COMMUNICATIONS COMPANY, I NC.; Docket 96-45,
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the parties on the attached service list.


Sonja L. Sykes-Minor

WILLIAM F. CATON** (0+4)
SECRETARY
FEDERAL COMMUNICATIONS
COMMISSION
1919 M STREET, N.W., ROOM 222
WASHINGTON, D.C. 20554

THE HONORABLE REED E. HUNDT,
CHAIRMAN**
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET, N.W., ROOM 814
WASHINGTON, D.C. 20554

THE HONORABLE SUSAN NESS**
COMMISSIONER
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET, N.W., ROOM 832
WASHINGTON, D.C. 20554

THE HONORABLE RACHELLE B. CHONG**
COMMISSIONER
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET, N.W., ROOM 844
WASHINGTON, D.C. 20554

THE HONORABLE JULIA JOHNSON
COMMISSIONER
FLORIDA PUBLIC SERVICE COMMISSION
CAPITAL CIRCLE OFFICE CENTER
2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

THE HONORABLE KENNETH MCCLURE
VICE CHAIRMAN
MISSOURI PUBLIC SERVICE COMMISSION
301 W. HIGH STREET, SUITE 530
JEFFERSON CITY, MO 65102

THE HONORABLE SHARON L. NELSON,
CHAIRMAN
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
500 E. CAPITAL AVENUE
PIERE, SD 57501

THE HONORABLE LASKA SCHOENFELDER,
COMMISSIONER
SOUTH DAKOTA PUBLIC UTILITIES
COMMISSION
500 E. CAPITAL AVENUE
PIERRE, SD 57501

MARTHA S. HOGERTY
PUBLIC COUNSEL FOR THE STATE OF
MISSOURI
P.O. BOX 7800
HARRY S. TRUMAN BUILDING, ROOM 250
JEFFERSON CITY, MISSOURI 65102

DEBORAH DUPONT, FEDERAL STAFF CHAIR**
FEDERAL COMMUNICATIONS COMMISSION
2000 L STREET, N.W., ROOM 257
WASHINGTON, D.C. 20036

PAUL E. PEDERSON, STATE STAFF CHAIR
MISSOURI PUBLIC SERVICE COMMISSION
P.O. BOX 360
TRUMAN STATE OFFICE BUILDING
JEFFERSON CITY, MISSOURI 65102

EILEEN BENNER
IDAHO PUBLIC UTILITIES COMMISSION
P.O. BOX 83720
BOISE, IDAHO 83720-0074

CHARLES BOLLE
SOUTH DAKOTA PUBLIC UTILITIES
COMMISSION
STATE CAPITAL, 500 E. CAPITAL AVENUE
PIERRE, SD 57501-5070

LORRAINE KENYON
ALASKA PUBLIC UTILITIES COMMISSION
1016 WEST SIXTH AVENUE, SUITE 400
ANCHORAGE, AK 99501

DEBRA M. KRIETE
PENNSYLVANIA PUBLIC UTILITIES
COMMISSION
P.O. BOX 3265
HARRISBURG, PA 17105-3265

MARK NADEL**
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET, N.W., ROOM 542
WASHINGTON, D.C. 20554

JEANINE POLTRONIERI**
FEDERAL COMMUNICATIONS COMMISSION
2000 L STREET, N.W., ROOM 257
WASHINGTON, D.C. 20036

JONATHAN REEL**
FEDERAL COMMUNICATIONS COMMISSION
2000 L STREET, N.W., ROOM 257
WASHINGTON, D.C. 20036

GARY SEIGEL**
FEDERAL COMMUNICATIONS COMMISSION
2000 L STREET, N.W., ROOM 812
WASHINGTON, D.C. 20036

PAMELA SZYMCAK**
FEDERAL COMMUNICATIONS COMMISSION
2000 L STREET, N.W., ROOM 257
WASHINGTON, D.C. 20036

WHITING THAYER**
FEDERAL COMMUNICATIONS COMMISSION
2000 L STREET, N.W., ROOM 812
WASHINGTON, D.C. 20036

ALEX BELINFANTE**
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET, N.W.
WASHINGTON, D.C. 20554

LARRY POVICH**
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET, N.W., ROOM 500J
WASHINGTON, D.C. 20554

INTERNATIONAL TRANSCRIPTION SERVICE**
FEDERAL COMMUNICATIONS COMMISSION
1919 M STREET, N.W., ROOM 640
WASHINGTON, D.C. 20554

ERNESTINE CREECH** (VIA DISKETTE)
COMMON CARRIER BUREAU
ACCOUNTING AND AUDITS DIVISION
FEDERAL COMMUNICATIONS COMMISSION
2000L STREET, N.W., ROOM 257
WASHINGTON, D.C. 20554

PAUL E. PEDERSON, STATE STAFF CHAIR
MISSOURI PUBLIC SERVICE COMMISSION
P.O. BOX 360
TRUMAN STATE OFFICE BUILDING
JEFFERSON CITY, MO 65102

EILEEN BENNER
IDAHO PUBLIC UTILITIES COMMISSION
P.O. BOX 83720
BOISE, IDAHO 83720-0074

CHARLES BOLLE
SOUTH DAKOTA PUBLIC UTILITIES
COMMISSION
STATE CAPITAL
500 EAST CAPITAL AVENUE
PIERRE, SOUTH DAKOTA 57501-5070

LORRAINE KENYON
ALASKA PUBLIC UTILITIES COMMISSION
1016 WEST SIXTH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99501

DEBRA M. KRIETE
PENNSYLVANIA PUBLIC UTILITIES
COMMISSION
P.O. BOX 3265
HARRISBURG, PENNSYLVANIA 17105-3265

MARK LONG
FLORIDA PUBLIC SERVICE COMMISSION
2540 SHUMARD OAK BOULEVARD
GENERAL GUNTER BUILDING
TALLAHASSEE, FLORIDA 32399-0850

SANDRA MAKEEFF
IOWA UTILITIES BOARD
LUCAS STATE OFFICE BUILDING
DES MOINES, IA 50319

PHILIP F. MCCLELLAND
PENNSYLVANIA OFFICE OF CONSUMER
ADVOCATE
1425 STRAWBERRY SQUARE
HARRISBURG, PENNSYLVANIA 17120

MICHAEL A. MCRAE
D.C. OFFICE OF THE PEOPLE'S COUNSEL
1133 15TH STREET, N.W. -- SUITE 500
WASHINGTON, D.C. 20005

TERRY MONROE
NEW YORK PUBLIC SERVICE COMMISSION
THREE EMPIRE PLAZA
ALBANY, NY 12223

JAMES BRADFORD RAMSAY
NATIONAL ASSOCIATION OF REGULATORY
UTILITY COMMISSIONERS
1201 CONSTITUTION AVENUE, N.W.
WASHINGTON, D.C. 20423

BRIAN ROBERTS
CALIFORNIA PUBLIC UTILITIES COMMISSION
5050 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

DEBORAH S. WALDBAUM
COLORADO OFFICE OF CONSUMER COUNSEL
1580 LOGAN STREET, SUITE 610
DENVER, COLORADO 80203

LEE PALAGYI
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
P.O. BOX 47250
OLYMPIA, WA 98504-7250